

ORIGINAL

OPEN MEETING AGENDA ITEM



0000106098



PINNACLE WEST  
CAPITAL CORPORATION  
LAW DEPARTMENT

RECEIVED

2009 DEC 14 P 3:43

AZ CORP COMMISSION  
DOCKET CONTROL

Thomas L. Mumaw  
Senior Attorney  
(602) 250-2052  
Direct Line

December 14, 2009

Arizona Corporation Commission

DOCKETED

DEC 14 2009

DOCKETED BY	
-------------	--

Commissioner Kristin K. Mayes, Chairman  
Commissioner Gary Pierce  
Commissioner Paul Newman  
Commissioner Sandra D. Kennedy  
Commissioner Bob Stump  
ARIZONA CORPORATION COMMISSION  
1200 West Washington Street  
Phoenix, Arizona 85007

Re: Arizona Public Service Company's Pending Rate Case;  
Docket No. E-01345A-08-0172

Dear Chairman Mayes and Commissioners:

This letter will address some outstanding informational requests made by Commissioners during the Special Open Meeting held on December 7, 8 and 9, 2009. Arizona Public Service Company's ("APS" or "Company") discussed its commitment to conduct deliberative polling in a separate letter dated December 11, 2009 (also filed in this Docket).

*Items Being Considered by APS to Achieve \$30 Million in Expense Savings for 2010*

Chairman Mayes requested additional details as to how APS intended to achieve the \$30 million of cost savings in 2010 (pages 121 and 122 of the Special Open Meeting transcript). There are several broad categories that comprise the Company's plan for cost reductions in 2010, including both "top down" cost reduction initiatives and "bottom up" budgetary processes.

Top down cost reduction initiatives are projects, often on a broad scale, seeking systematic efficiencies in certain functions or practices. APS is implementing a large initiative that will generate cost savings in its supply chain – in other words its procurement process. This initiative involves not just finding efficiencies in inventory management and reducing transportation and delivery costs, but also using strategic sourcing to reduce prices and improve the quality of goods and services obtained. The scope of this initiative affects everything from distribution equipment and power plant consumables to office services like photocopying, and even building maintenance contracts. Cost reductions from renegotiated contracts and lower

APS • APS Energy Services • SunCor • El Dorado

Law Department, 400 North Fifth Street, Mail Station 8695, Phoenix, AZ 85004-3992  
Phone: (602) 250-2052 • Facsimile (602) 250-3393  
E-mail: Thomas.Mumaw@pinnaclewest.com

Kristin K. Mayes, Chairman  
Commissioner Gary Pierce  
Commissioner Paul Newman  
Commissioner Sandra D. Kennedy  
Commissioner Bob Stump  
December 14, 2009  
Page -2 -

delivery costs as a result of this initiative are expected to be the largest single component of the 2010 cost reductions.

A similar top down initiative is centralization. APS identifies functions that are currently performed either at multiple locations or on multiple systems and consolidating them. For example, centralizing fossil plant engineering for the entire fossil fleet rather than having separate engineering functions at each plant should result in improved operations and greater efficiencies. Similarly, identifying a single system to use corporate wide, such as for work order processing, rather than having multiple departments using separate systems, should also reduce costs. Other top down initiatives being implemented in 2010 include such things as process standardization and process improvements and reducing lease expenses.

While some cost reduction initiatives are best implemented as top down programs, some of the savings will also be achieved through individual business units identifying cost reductions in their own budgets. A practice called LEAN/Six Sigma, which combines quality management with the elimination of non-core practices, is being implemented across certain business units of APS as a means of reducing their operating costs. Another example of a business unit initiative in the fossil group is reducing travel to and from remote power plants by the use of video conferencing.

Finally, APS intends to continue its policy of requiring executive officer approval to fill a vacant position with an outside hire, to ensure that such positions are filled with new personnel only when absolutely necessary. Similarly, increased scrutiny has been placed on individual business units to manage and reduce outside contractor costs. And, pursuant to Section 7.4 of the Settlement Agreement, APS continues to look at the potential for further cost reductions in the specific areas mentioned in Decision No. 70667. All of these practices generate cost savings for individual business units, which in turn roll up to cost savings at the enterprise level.

The combination of all of the Company's efforts is expected to generate at least \$30 million of savings in 2010. As required by Section 7.4 of the Settlement Agreement, APS believes these savings can be achieved without compromising the Company's ability to provide safe and reliable electric service.

#### *Number of APS Executives*

Commissioner Kennedy asked (page 104 of the Special Open Meeting transcript) the number of APS executives subject to the provisions of Section XII of the Settlement. There are 22 such individuals.

Kristin K. Mayes, Chairman  
Commissioner Gary Pierce  
Commissioner Paul Newman  
Commissioner Sandra D. Kennedy  
Commissioner Bob Stump  
December 14, 2009  
Page -3 -

*Stock Price History*

Chairman Mayes requested how much Pinnacle West's common stock had appreciated in recent months (page 393 of the Special Open Meeting transcript). Between August 1, 2009 and the date of the request (December 8, 2009), the stock went from \$31.96 per share to \$35.51.

*Southern Arizona Community Power Project*

In response to a proposed amendment by Commissioner Newman, APS was asked by Chairman Mayes (pages 567-568 of the Special Open Meeting transcript) to indicate whether it could identify a potential site for a Community Power Project in Southern Arizona that could be similar to that proposed for Flagstaff, which is currently pending Commission approval. In doing so, it is important that any selected location have both the physical system and customer mix (residential and commercial) characteristics needed to expand upon the learnings from Flagstaff (assuming that project is approved) and the requisite degree of anticipated demand for concentrated adoption of solar technology. If another such demonstration project is found appropriate, APS could consider locations throughout its service area, including but not limited to Yuma, the Douglas area, Casa Grande, Prescott Valley, and the West Valley communities of Metro-Phoenix.

I believe the Company has now responded to all outstanding Commissioner requests for specific information.

Very truly yours,



Thomas L. Mumaw  
Attorney for Arizona Public Service Company

TLM/na

cc: Steve Olea  
Ernest Johnson  
Janice Alward  
Lyn Farmer  
Parties of Record  
Docket Control

Copies of the foregoing emailed or mailed  
This 14<sup>th</sup> day of December 2009 to:

Ernest G. Johnson  
Executive Director, Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007  
[ejohnson@cc.state.az.us](mailto:ejohnson@cc.state.az.us)

Maureen Scott  
Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007  
[mscott@azcc.gov](mailto:mscott@azcc.gov)

Janet Wagner  
Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007  
[jwagner@azcc.gov](mailto:jwagner@azcc.gov)

Terri Ford  
Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007  
[tford@azcc.gov](mailto:tford@azcc.gov)

Barbara Keene  
Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, AZ 85007  
[bKeene@cc.state.az.us](mailto:bKeene@cc.state.az.us)

Daniel Pozefsky  
Chief Counsel  
RUCO  
1110 West Washington, Suite 220  
Phoenix, AZ 85007  
[dpozefsky@azruco.gov](mailto:dpozefsky@azruco.gov)

William A. Rigsby  
RUCO  
1110 West Washington, Suite 220  
Phoenix, AZ 85007  
[brigsby@azruco.gov](mailto:brigsby@azruco.gov)

Tina Gamble  
RUCO  
1110 West Washington, Suite 220  
Phoenix, AZ 85007  
[tgamble@azruco.gov](mailto:tgamble@azruco.gov)

C. Webb Crockett  
Fennemore Craig  
3003 North Central, Suite 2600  
Phoenix, AZ 85012-2913  
[wcrocket@fclaw.com](mailto:wcrocket@fclaw.com)

Kevin Higgins  
Energy Strategies, LLC  
215 South State Street, Suite 200  
Salt Lake City, UT 84111  
[khiggins@energystrat.com](mailto:khiggins@energystrat.com)

Michael L. Kurtz  
Boehm, Kurt & Lowry  
36 East Seventh Street, Suite 2110  
Cincinnati, OH 45202  
[mkurtz@BKLLawfirm.com](mailto:mkurtz@BKLLawfirm.com)

Kurt J. Boehm  
Boehm, Kurt & Lowry  
36 East Seventh Street, Suite 2110  
Cincinnati, OH 45202  
[kboehm@BKLLawfirm.com](mailto:kboehm@BKLLawfirm.com)

The Kroger Company  
Dennis George  
Attn: Corporate Energy Manager (G09)  
1014 Vine Street  
Cincinnati, OH 45202  
[dgeorge@kroger.com](mailto:dgeorge@kroger.com)

Stephen J. Baron  
J. Kennedy & Associates  
570 Colonial Park Drive  
Suite 305  
Roswell, GA 30075  
[sbaron@jkenn.com](mailto:sbaron@jkenn.com)

Theodore Roberts  
Sempra Energy Law Department  
101 Ash Street, H Q 13D  
San Diego, CA 92101-3017  
[TRoberts@sempra.com](mailto:TRoberts@sempra.com)

Lawrence V. Robertson, Jr.  
2247 E. Frontage Road  
Tubac, AZ 85646  
[tubaclawyer@aol.com](mailto:tubaclawyer@aol.com)

Michael A. Curtis  
501 East Thomas Road  
Phoenix, AZ 85012  
[mcurtis401@aol.com](mailto:mcurtis401@aol.com)

William P. Sullivan  
501 East Thomas Road  
Phoenix, AZ 85012  
[wsullivan@cgsuslaw.com](mailto:wsullivan@cgsuslaw.com)

Larry K. Udall  
501 East Thomas Road  
Phoenix, AZ 85012  
[ludall@cgsuslaw.com](mailto:ludall@cgsuslaw.com)

Michael Grant  
Gallagher & Kennedy, P.A.  
2575 East Camelback Road  
Phoenix, AZ 85016  
[MMG@gknet.com](mailto:MMG@gknet.com)

Gary Yaquinto  
Arizona Investment Council  
2100 North Central, Suite 210  
Phoenix, AZ 85004  
[gyaquinto@arizonaic.org](mailto:gyaquinto@arizonaic.org)

David Berry  
Western Resource Advocates  
P.O. Box 1064  
Scottsdale, AZ 85252-1064  
[azbluhill@aol.com](mailto:azbluhill@aol.com)

Tim Hogan  
Arizona Center for Law in the Public Interest  
202 East McDowell Road  
Suite 153  
Phoenix, AZ 85004  
[thogan@aclpi.org](mailto:thogan@aclpi.org)

Jeff Schlegel  
SWEEP Arizona Representative  
1167 W. Samalayuca Dr.  
Tucson, AZ 85704-3224  
[schlegelj@aol.com](mailto:schlegelj@aol.com)

Jay I. Moyes  
MOYES, SELLERS, & SIMS  
1850 North Central Avenue, Suite 1100  
Phoenix, AZ 85004  
[jimoyes@lawms.com](mailto:jimoyes@lawms.com)

Jeffrey J. Woner  
K.R. Saline & Assoc., PLC  
160 N. Pasadena, Suite 101  
Mesa, AZ 85201  
[jjw@krsaline.com](mailto:jjw@krsaline.com)

Scott Canty  
General Counsel the Hopi Tribe  
P.O. Box 123  
Kykotsmovi, AZ 86039  
[Scanty0856@aol.com](mailto:Scanty0856@aol.com)

Cynthia Zwick  
1940 E. Luke Ave  
Phoenix, AZ 85016  
[czwick@azcaa.org](mailto:czwick@azcaa.org)

Nicholas J. Enoch  
349 North 4<sup>th</sup> Ave  
Phoenix, AZ 85003  
[nick@lubinandenoch.com](mailto:nick@lubinandenoch.com)

Karen S. White, Esq  
Air Force Utility Litigation &  
Negotiation Team  
AFLOA/JACL-ULT  
139 Barnes Drive  
Tyndall AFB, FL 32403  
[karen.white@tyndall.af.mil](mailto:karen.white@tyndall.af.mil)

Douglas V. Fant  
Law Offices of Douglas V. Fant  
3655 W. Anthem Dr.  
Suite A-109 PMB 411  
Anthem, AZ 85086  
[dfantlaw@earthlink.net](mailto:dfantlaw@earthlink.net)

Barbara Wyllie-Pecora  
27458 N. 129<sup>th</sup> Drive  
Peoria, AZ 85383  
[bwylliepecora@yahoo.com](mailto:bwylliepecora@yahoo.com)

Carlo Dal Monte  
Catalyst Paper Corporation  
65 Front Street, Suite 201  
Nanaimo, BC V9R 5H9  
[Carlo.dalmonete@catalystpaper.com](mailto:Carlo.dalmonete@catalystpaper.com)

Steve Morrison  
SCA Tissue North America  
14005 West Old Hwy 66  
Bellemont, AZ 86015  
[steve.morrison@sca.com](mailto:steve.morrison@sca.com)